

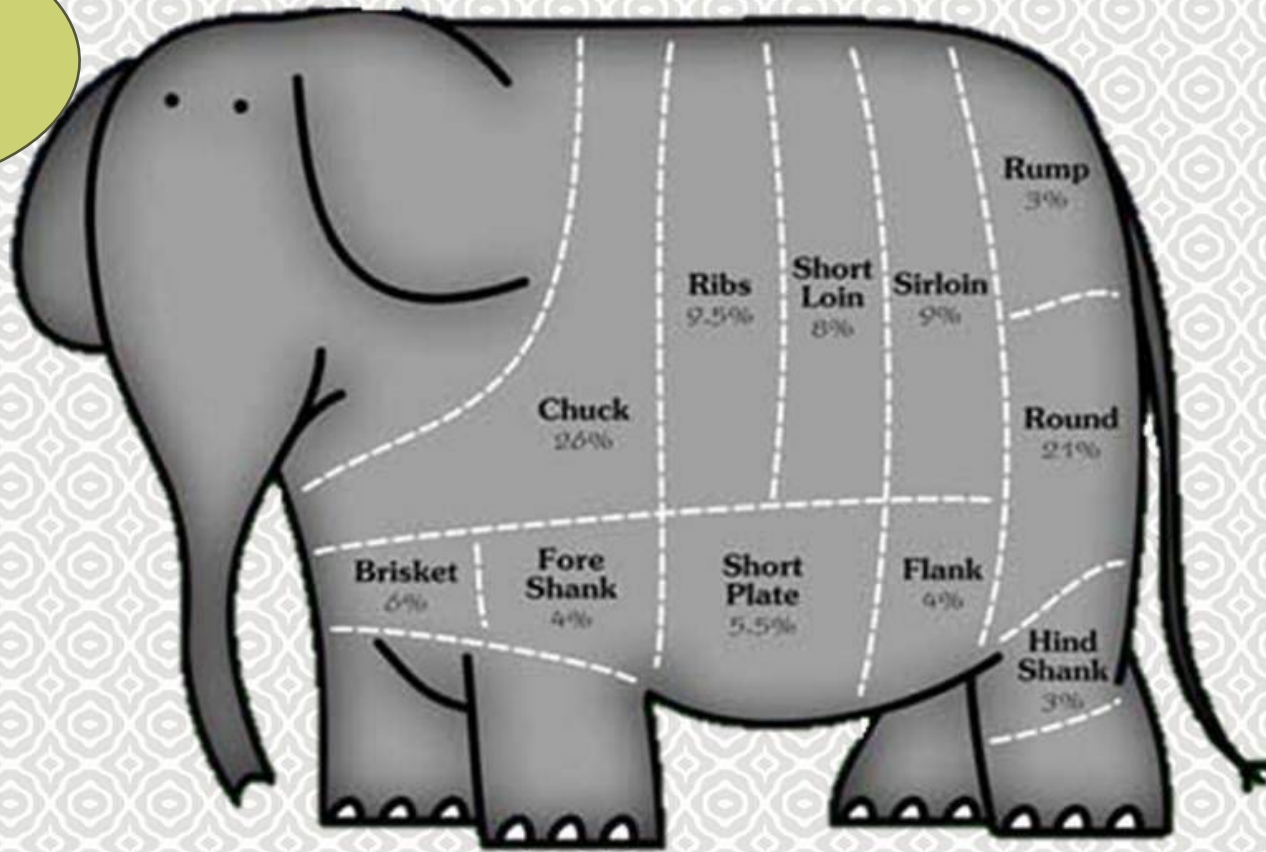
The District General Fund

School Funding Interim Commission

2025 – 2026 Interim



Let's learn
about school
funding!



one bite at a time...

The theme of today's school funding snack is "the funding formula" aka the funding formula for the school district general fund.

<https://medium.com/@zrehan286/approaching-a-problem-f6d6138e70d1>

Multiple entities share governance for K-12 education in Montana: “The Constitutional Players”



The Legislature

Provides a basic system of free quality public schools, and funds and distributes the state share to the school districts in an equitable manner



The Superintendent of Public Instruction

Has duties as provided by law
Serves as an ex-officio non-voting member of the Board of Public Education



The Board of Public Education

Exercises general supervision over the public school system and such other public educational institutions as assigned by law



School District Trustees

The supervision and control of schools in each school district shall be vested in a board of trustees to be elected as provided by law



School funding is constitutionally required

[Montana Constitution \(Article X, Part X, Section 1\)](#)

Section 1. Educational goals and duties.

(1) It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.

(2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

(3) The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. It [the legislature] shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system.



School funding is constitutionally required

Per [20-9-309, MCA](#), the legislature shall:

(a) determine the costs of providing the basic system of free quality public elementary and secondary schools;

(b) **establish a funding formula that:**

(i) is based on the definition of a basic system of free quality public elementary and secondary schools and reflects the costs associated with providing that system as determined in subsection (4)(a);

(ii) **allows the legislature to adjust the funding formula** based on the educationally relevant factors identified in this section;

(iii) is self-executing and includes a mechanism for annual inflationary adjustments;

(iv) is based on state laws;

(v) is based on federal education laws consistent with Montana's constitution and laws; and

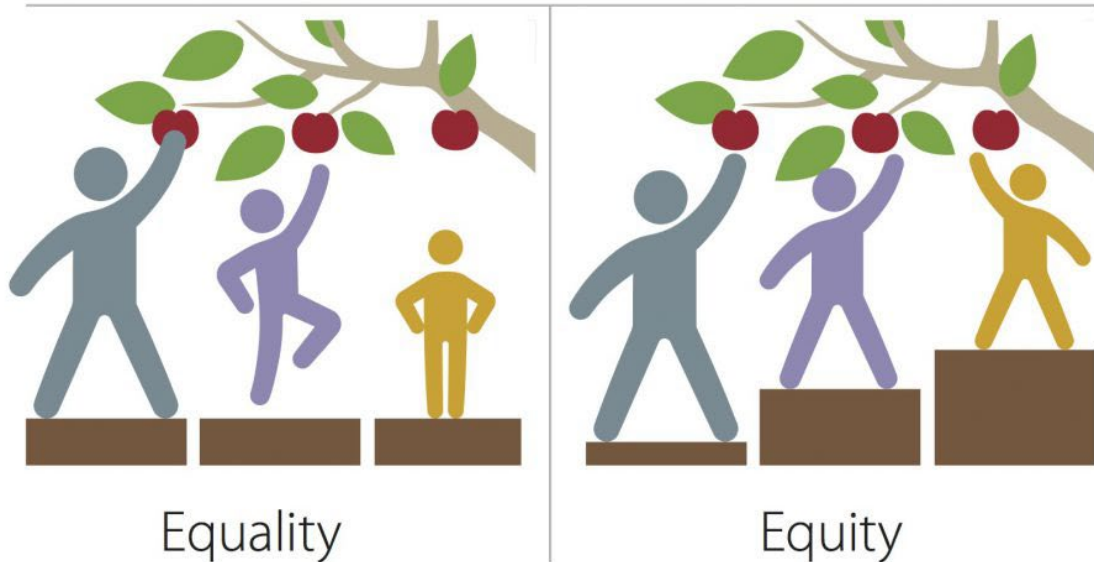
(vi) distributes to school districts in an equitable manner the state's share of the costs of the basic system of free quality public elementary and secondary schools; and

(c) consolidate the budgetary fund structure to create the number and types of funds necessary to provide school districts with the greatest budgetary flexibility while ensuring accountability and efficiency.

The only entity that can modify Montana's school funding formula is the Montana Legislature.



Equality vs. Equity



Equity is about fairness. In the right-hand picture, resources are allocated equitably in varying amounts in order to provide equality of opportunity.

Similarly in Montana's school funding formula, resources are allocated based on need in varying amounts to reflect two realities:

- 1) Children (and schools/districts) require varying amounts of resources to develop their educational potentials; and
- 2) Districts have varying capacities to generate local revenue.

Montana's funding formula takes both kinds of need into consideration to ensure students across the state have quality schools. In this sense, **equitable** distribution of funding helps ensure the "**equality** of educational opportunity" guaranteed in Montana's constitution.



Court cases and changes to Montana K-12 Finance

Year	Court Case	Finding	Legislation	Change to Formula
1989	Helena Elementary v. State (Equity)	Unequal spending per pupil means unequal educational opportunity; property poor districts were spending less (and often levying more mills)	HB 28 (1989 special session)	<ul style="list-style-type: none"> Increased state share Created GTB payments Created statewide equalization property tax levy of 40 mills; increased existing county equalization mills to 55 mills (new total = <u>95</u> mills)
1992	Lawsuits filed contending HB 28 had not fixed disparities		HB 667 (1993)	<ul style="list-style-type: none"> Eliminated existing Foundation Program Created new formula with BASE (minimum) and maximum budgets, basic and per-ANB entitlements GTB for debt service
2004	Columbia Falls v. State I (Adequacy)	Funding inadequate; basic system of quality school not defined; must fund Art X, Section 1(2) of the Montana Constitution (preservation of tribes' cultural integrity)	SB 424 (2003) SB 152 (2005) SB 525 (2005) SB 1 (2005 special session following QSIC)	<ul style="list-style-type: none"> (Annual inflationary adjustments to BE and per-ANB were added in 2003 during litigation) Defined basic system Created Quality Schools Interim Committee (QSIC) Created 4 new fully state-funded payments: QE; at-risk, IEFA, American Indian Achievement Gap
2008	Columbia Falls v. State II	Legislature has made good faith effort to address concerns regarding adequacy	Various	<ul style="list-style-type: none"> Increased GTB ratio; provided funding for facilities

The Funding Formula

AKA

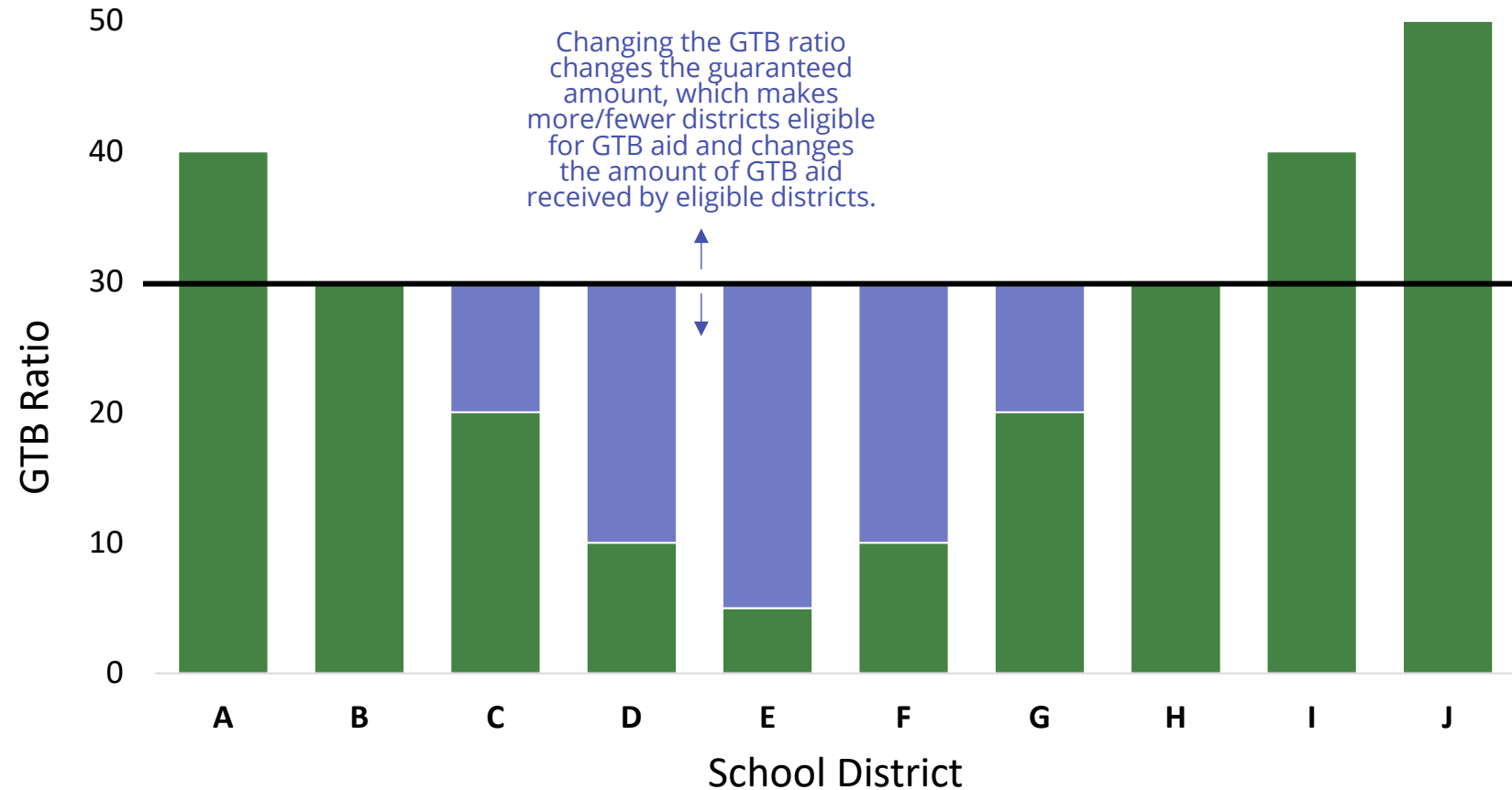
**The School
District
General Fund**





Guaranteed Tax Base (GTB) Aid

GTB aid equalizes districts' revenue-generating capacity by providing a **state GTB aid subsidy** for districts with less property tax wealth to bring their **revenue-generating capacity (based on the district GTB ratio)** to a **guaranteed amount**



A district's **revenue-generating capacity** is measured as a ratio of the district's property wealth (taxable value) to its local funding needs and costs (sometimes ANB, but in our district general fund formula, the GTB area).

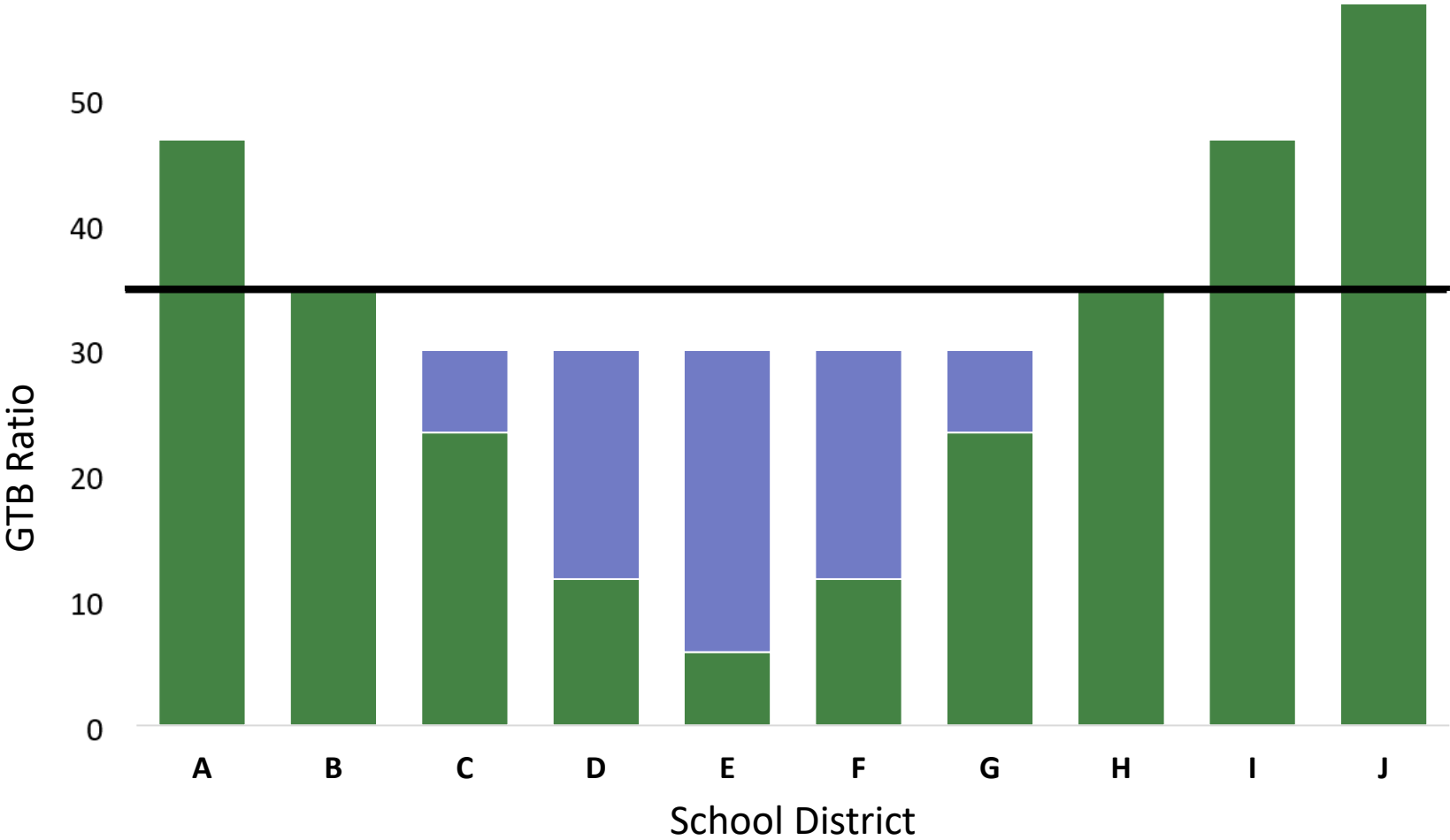


Guaranteed Tax Base (GTB) Aid

What is the "GTB Lag?"

	FY 2023	FY 2024	FY 2025
GTB Multiplier	254%	262%	262%
State GTB	\$262 M	\$249 M	\$278 M
Local Prop Tax	\$146 M	\$164 M	\$146 M

GTB calculations are largely driven by the ratio: TV/GTB Area. When the numerator (TV) spiked in FY 2024, the subsidy per mill was lagging, based on FY 2023 numbers. Envision all the green columns AND the black "guarantee line" rising, but the purple GTB subsidy remaining the same.



We were basically plugging FY 2024's larger gap with FY 2023's smaller GTB patch. Local property taxes filled the difference.



Guaranteed Tax Base (GTB) Aid

GTB provides support for low tax value and/or high student areas. When combined with the school funding formula, this promotes base level equal opportunities for students across Montana.

For example: for FY 2025, Ennis K-12 and Superior K-12 school districts have relatively comparable enrollment (ANB), and Superior K-12 receives GTB aid while Ennis K-12 does not:

School District	ANB	Taxable Value	GTB	BASE Levy Revenue	Mill Value	Number of Mills
Ennis K-12	444	\$329.2M	\$0	\$1,301,205	\$329,236	3.95
Superior K-12	341	\$6.6M	\$823,775	\$236,148	\$6,638	35.57

This is due to the difference in tax bases for the districts.

The number of mills it would take to raise \$1.0 million for those two districts WITHOUT GTB are calculated below:

School District	ANB	Taxable Value	GTB	Levy Revenue	Mill Value	Number of Mills
Ennis K-12	444	\$329.2M	\$0	\$1,000,000	\$329,236	3.04
Superior K-12	341	\$6.6M	\$0	\$1,000,000	\$6,638	150.65

It would take Superior K-12 150.65 mills to collect \$1.0 million in FY 2025, while Ennis K-12 would need only 3.04 mills to do the same. GTB aid helps equalizes the tax burden for education between different areas.

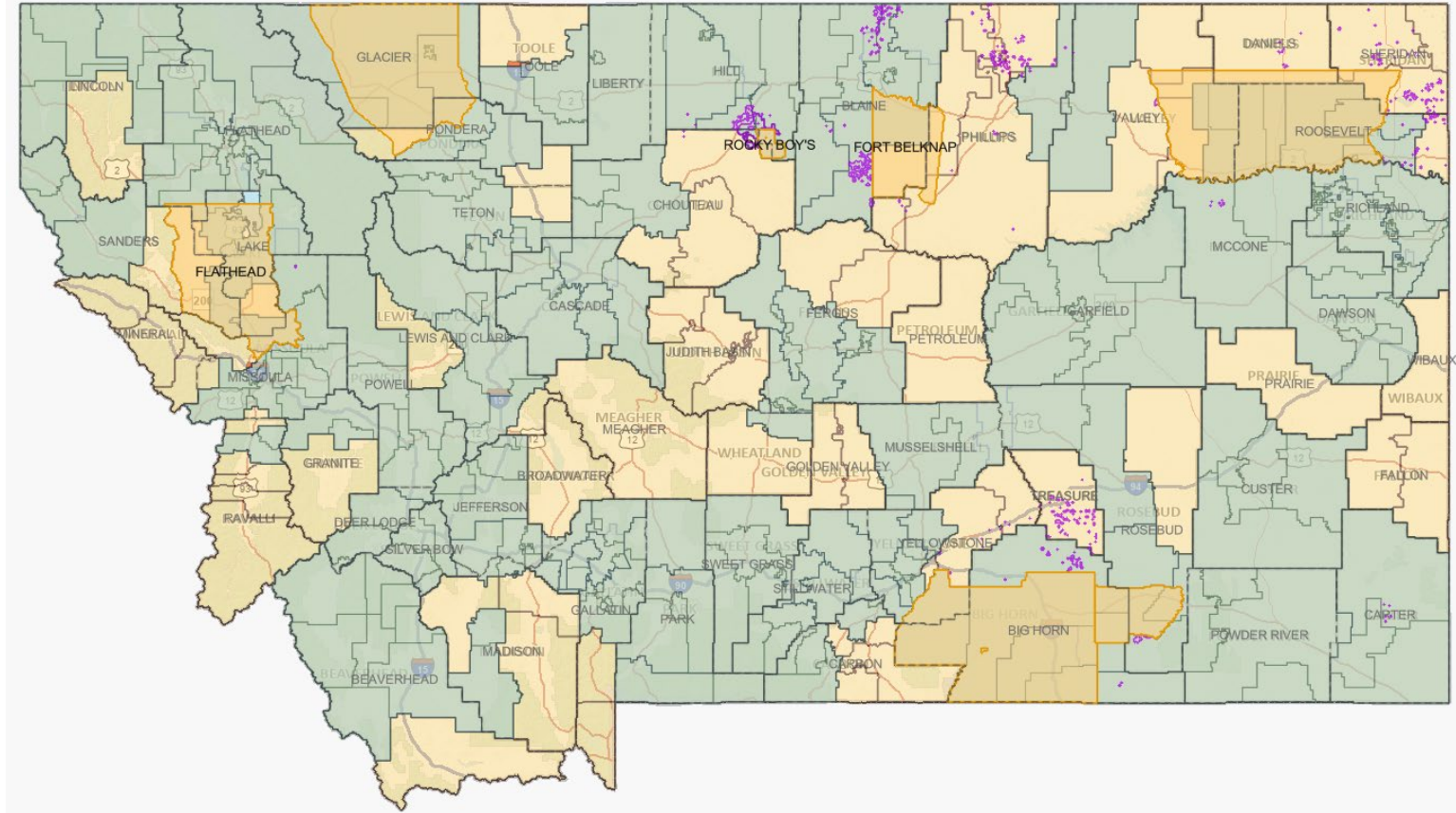
The Funding Formula

The Office of Public Instruction distributes state and federal funding to school districts over the course of the year, using the school funding formula (for the district general fund).

Montana has about 400 school districts serving roughly 150,000 students. In school funding, we use an enrollment metric called **Average Number Belonging (ANB)** to talk about a district's enrollment.

Some districts are K-12 districts. However, other districts are elementary districts (K-8) or high school districts (9-12). There may be multiple elementary districts feeding into one high school district, or a single elementary district may feed into multiple high school districts.

➤ See the [Map of Montana Schools & School Districts](#) to look at school district boundaries and school locations (attendance centers).

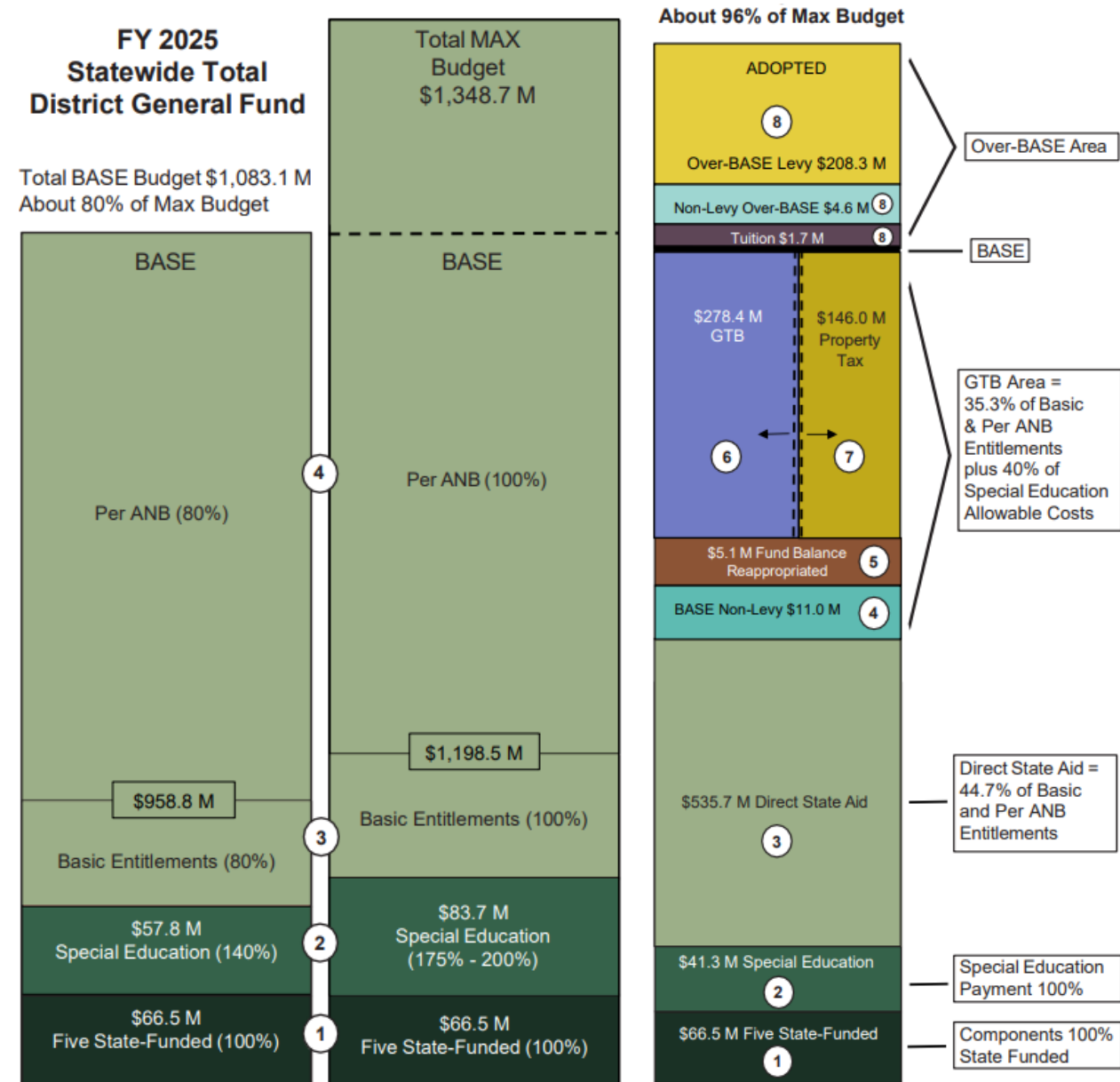


The Funding Formula

There are two parts to the school funding formula:

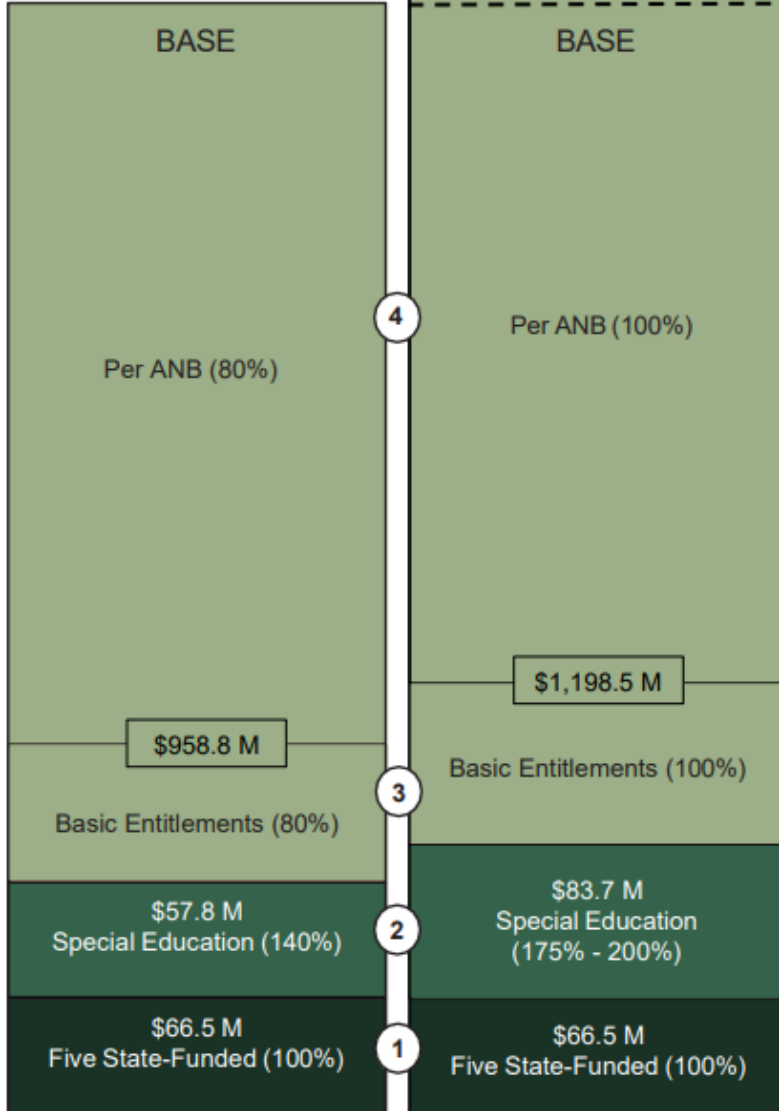
We have a formula to establish a district's general fund budget limits (left) and a formula for how a district's adopted budget is funded (right).

- See the [School District General Fund Interactive Tool](#) to look at these district general fund charts by school district.



**FY 2025
Statewide Total
District General Fund**

Total BASE Budget \$1,083.1 M
About 80% of Max Budget



④

Per ANB Entitlement- Average Number Belonging
- A per-ANB dollar amount driven by the greater of the prior year's enrollment or a 3-year average.

③

Basic Entitlement - A set amount per district based on whether it is an elementary school district, middle school district, or high school district. Districts with higher enrollment are eligible for additional basic entitlement "increments."

②

Special Education Payment - an amount per ANB regardless of the count of special education students. Portions of the special education appropriation go to cooperatives and to reimbursements for high-cost students.

①

Five State-Funded Components

1. Quality Educator Payment - A per-FTE payment for teachers and other licensed professionals

2. At Risk Payment - A payment to schools to address at-risk students; or students who are affected by an environment that negatively impacts performance and threatens the likelihood of promotion or graduation

3. Indian Education For All Payment - A per-ANB payment to fund the state's constitutional commitment to the preservation of American Indian cultural integrity

4. American Indian Achievement Gap Payment - A per-American Indian student payment for the purpose of closing the performance gap that exists between American Indian students and non-Indian students

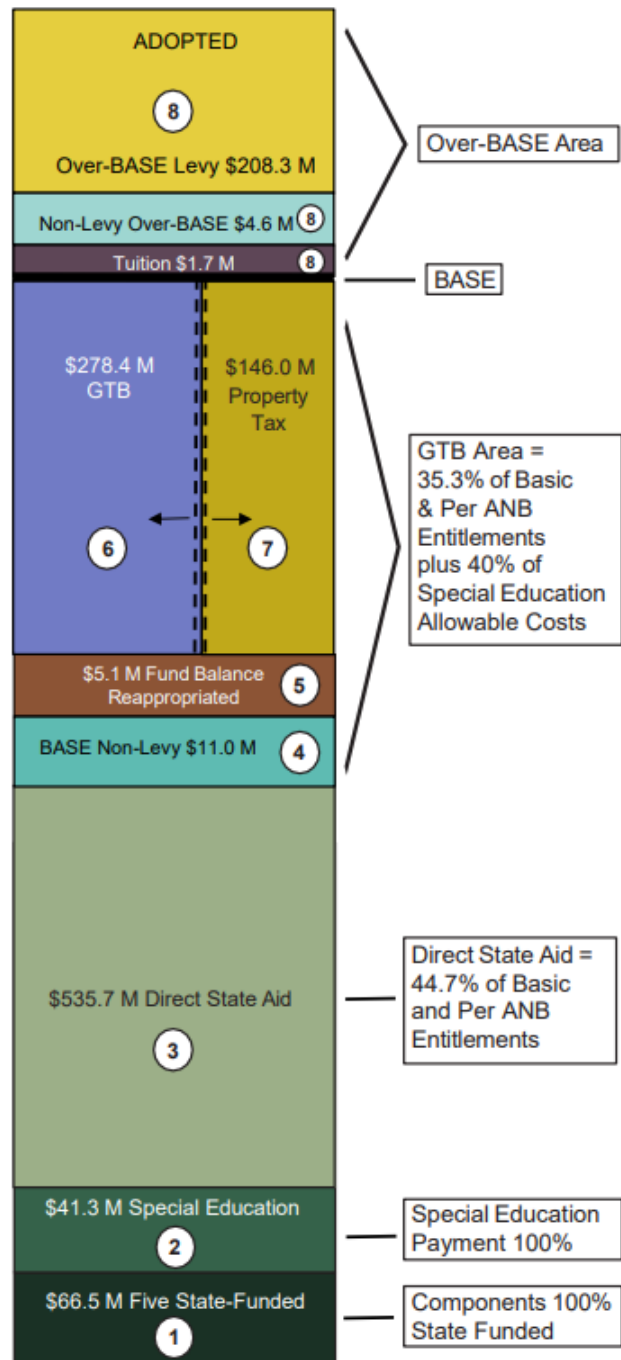
5. Data for Achievement - A per-ANB payment used by school districts to pay for costs associated with student data systems

Formula for establishing a district's general fund budget limits:

Each school district in Montana establishes a minimum **Basic Amount for School Equity (BASE) budget** and a **maximum (MAX) budget**, based on percentages of certain school funding components.

There are certain exceptions that allow a district to adopt a budget slightly over MAX, primarily due to declining enrollment.

About 96% of Max Budget



8 Any Over-BASE area of a district's adopted budget is funded by available non-levy revenues, tuition payments, and/or an Over-BASE levy approved by voters.

- The GTB Area is funded by:
- 7 • BASE Property Taxes - Local property tax revenues
 - 6 • GTB - Guaranteed Tax Base Aid - A state subsidy for mill levies used to equalize property wealth across the state. GTB aid provides a subsidy per mill to eligible districts
 - 5 • Fund Balance Re-appropriated - Any excess district general fund from the previous year
 - 4 • BASE Non-levy Revenue - Items such as interest earnings, facility rental income, summer school, oil and gas revenues, coal gross proceeds
 - 3 Direct State Aid - received by every district and is equal to 44.7 percent of the district's Per-ANB and Basic entitlements
 - 2 Special Education Payment - Formula funds provided to local school districts in the form of block grants
 - 1 Five State-Funded Components - 100% funded by the state

Other State Funding

The legislature is also responsible for setting rates for state participation in teacher's retirement, transportation, and debt service. Formulas for those payments can be found in Title 20, Chapter 9 of the Montana Code Annotated.

Impacts to Local Districts

The legislature's role is to assure adequate funding for a quality school system. If the legislature needs to adjust the formula, there could be local tax consequences. The main source of local contribution is property taxes.

Formula for how a district's adopted budget is funded:

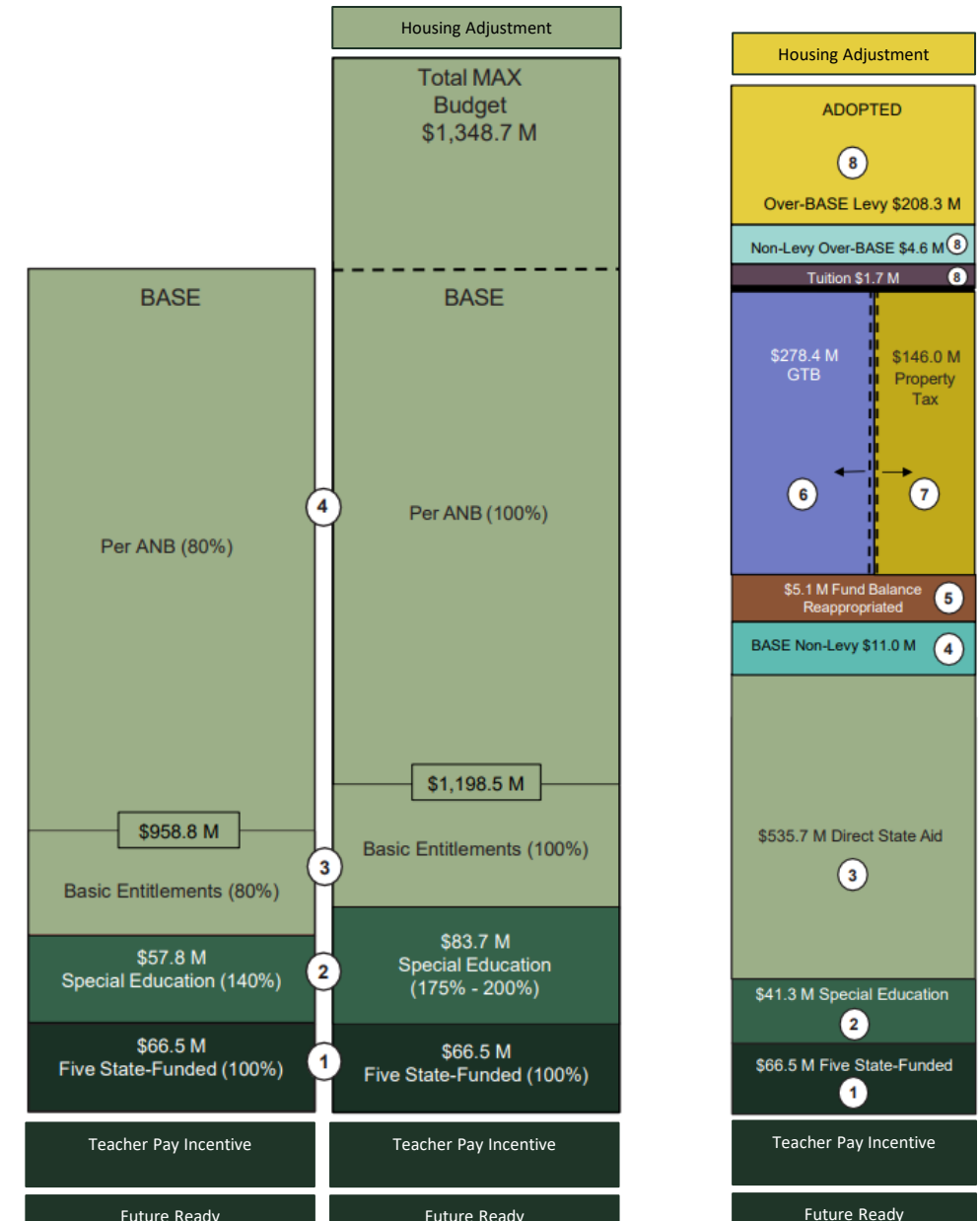
The **state levy (95 mills)** partially funds the state components (**the five fully state funded components, special education, direct state aid, and guaranteed tax base aid**), but cannot support the entire amount of K-12 funding from the state. The remainder of state funding comes from the state general fund (primarily made up of income tax).

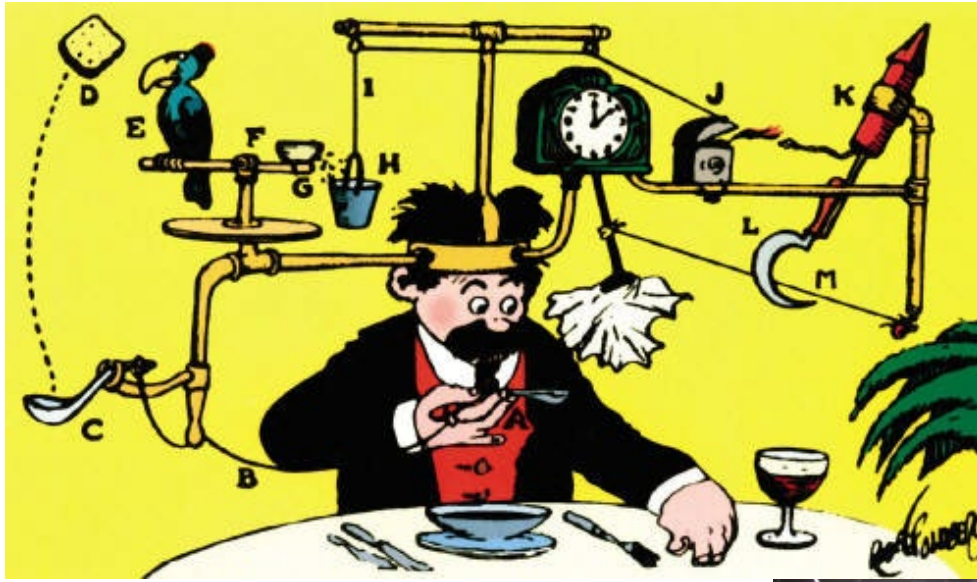
Adopted general fund budgets are also often supported by **local property taxes** in both the BASE (required levies) and over-BASE (voted levies).

STARS Act

HB 252, 2025 Session

- For a district that meets the benchmark for starting teacher pay, the district gets a teacher pay incentive through an enhanced Quality Educator (QE) payment. This raises the district's budget limits
 - As the QE payment is 100% state funded, there is no local property tax increase
- For a district that graduates students with dual credits, industry recognized credentials, etc., the district gets a new Future Ready payment. This raises the district's budget limits
 - As the Future Ready payment is 100% state funded, there is no local property tax increase
 - The amount of the payment is based on the per-ANB entitlement but is not added to the per-ANB payment
- For districts in or near counties with median housing costs higher than the statewide median, the district's MAX budget calculation is increased by percentages
 - This provides the district with higher budget authority and a larger over-BASE budget area. This area is generally filled with local voted levies. There is no state cost for this change





Whether you view Montana's K-12 funding formula as an overly complicated, nonsensical, Rube Goldberg-esque contraption or as a sophisticated, adaptable, high-performance machine...

It's YOURS!

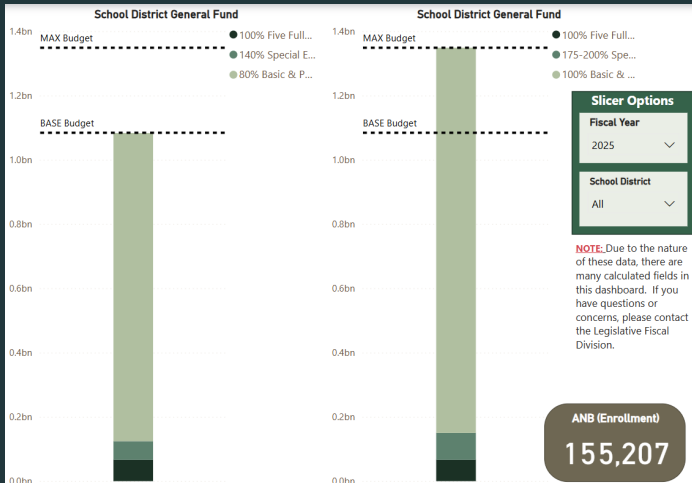
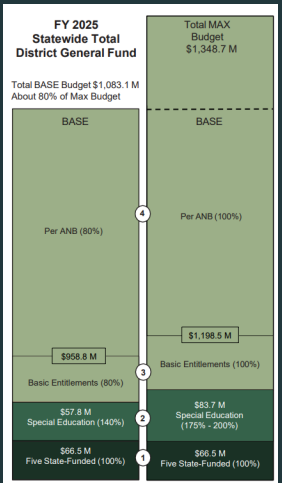
And from [20-9-309, MCA](#):

(4) The legislature shall... establish a funding formula that... allows the legislature to adjust the funding formula...

Your sophisticated machine is meant to be fine tuned from time to time!

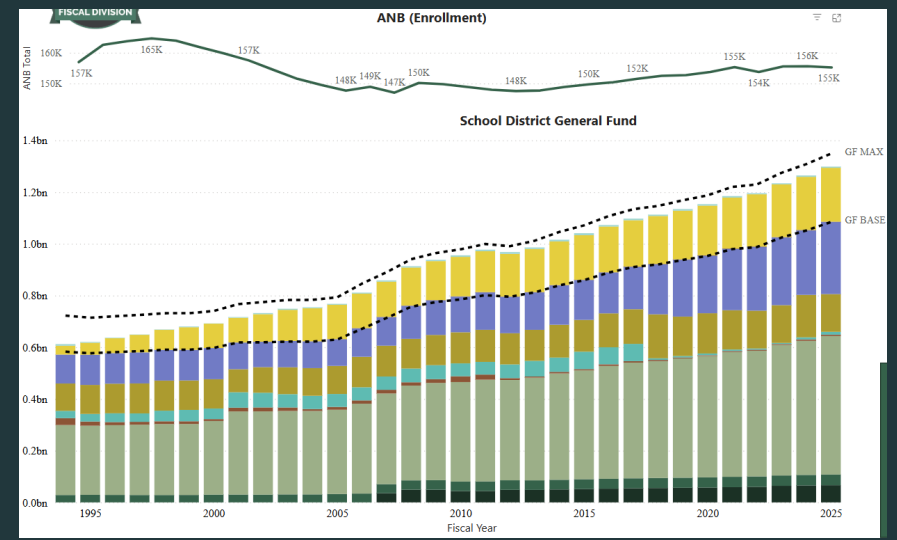
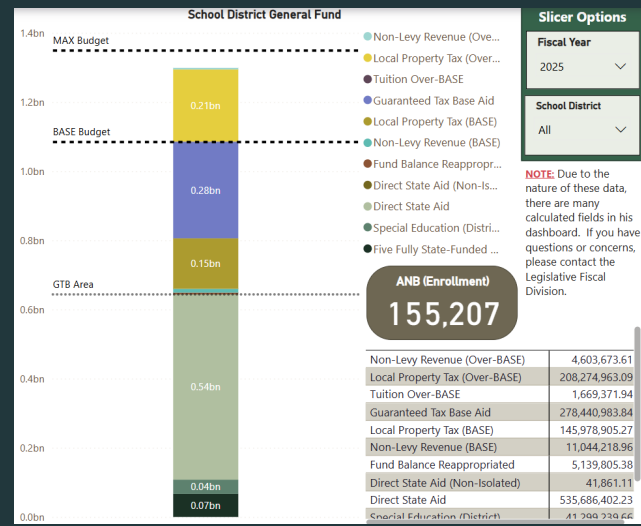
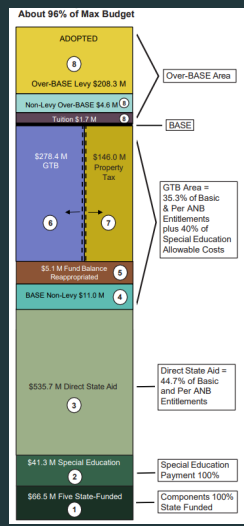


School District Funding Interactive Tools



Budget Limits

Adopted Budget & ANB (Enrollment) Over Time



Adopted Budget





School Funding Resources:

<https://www.legmt.gov/lfd/publications/school-funding-library/>

Property Tax Resources:

<https://www.legmt.gov/lfd/publications/property-tax-library/>

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Questions?

